

Message Text

UNCLASSIFIED

PAGE 01 PANAMA 01156 01 OF 02 212056Z
ACTION MMO-04

INFO OCT-01 ARA-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 /104 W
-----109877 212218Z /64

R 212010Z FEB 78
FM AMEMBASSY PANAMA
TO SECSTATE WASHDC 5770
INFO AMEMBASSY GUATEMALA
PANCANAL
USSOUTHCOM

UNCLAS SECTION 1 OF 2 PANAMA 1156

GUATEMALA PASS ROCAP

E.O. 11652: N/A
TAGS: EFIN, ECRP, PN
SUBJECT:IMPROVED GOP FISCAL PERFORMANCE IN 1977 FEATURE
SUBSTANTIAL REVENUE INCREASE(22 PER CENT) AND EXPENDITURE CURBS

1. SUMMARY: THE CENTRAL GOVERNMENT'S FISCAL PERFORMANCE IN 1977 WAS GREATLY IMPROVED OVER THE PREVIOUS YEAR. REVENUES OF THE CENTRAL GOVERNMENT (I.E., EXCLUDING AUTONOMOUS, SELF-FUNDING AGENCIES) FOR 1977 ROSE BY 22 PER CENT OVER 1976, DESPITE THE CONTINUING RECESSION, AS A RESULT OF A MAJOR TAX INCREASE, WHILE FISCAL AUSTERITY CONFINED THE INCREASE IN CURRENT EXPENDITURES TO 11 PER CENT AND ACTUALLY REDUCED CAPITAL OUTLAYS SLIGHTLY. HOWEVER, REVENUES COVERED ONLY GOP OPERATING COSTS, AND CAPITAL INVESTMENT STILL HAD TO BE FINANCED ENTIRELY THROUGH BORROWING--MOSTLY FROM ABROAD. SERVICING REQUIREMENTS OF THE CENTRAL GOVERNMENT'S DEBT CONTINUED TO INCREASE IN 1977 (AND AMOUNTED TO 29 PER CENT OF CURRENT REVENUES). THE DEBT SERVICING BURDEN OF THE GOP AUTONOMOUS AGENCIES ALSO INCREASED. END SUMMARY.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 PANAMA 01156 01 OF 02 212056Z

2. REVENUES: CURRENT REVENUES OF THE CENTRAL GOVERNMENT WERE \$343 MILLION IN 1977, COMPARED TO \$281 MILLION IN 1976. THE PRINCIPAL CAUSE OF THE INCREASE WAS THE NEW 5 PER CENT SALES TAX ON ITEMS OTHER THAN FOOD, DRUGS, AND FUEL, EFFECTIVE MARCH 1, 1977, WHICH GENERATED \$33 MILLION NEW REVENUE. IN ADDITION, BUSINESS INCOME TAX

COLLECTIONS BENEFITTED FROM THE IMPROVED RECORDS- KEEPING REQUIRED BY THE NEW TAX. SOME WAGE BOOSTS IN INDUSTRY ACCOUNTED FOR A MODERATE INCREASE IN PERSONAL INCOME TAX COLLECTIONS DESPITE INCREASED UNEMPLOYEMENT IN THE CITIES. OTHER TAX REVENUES WERE BASICALLY UNCHANGED FROM 1976 LEVELS, HOWEVER, REFLECTING CONTINUED RECESSION THROUGHOUT MOST OF THE PANAMANIAN ECONOMY DURING 1977. SLIGHTLY HIGHER PETROLEUM TAXES OFFSET SOME MINOR DOWNWARD RATE ADJUSTMENTS IN SOME OTHER INDIRECT TAXES. NON-TAX REVENUES WERE ESSENTIALLY UNCHANGED.

3. CURRENT EXPENDITURES: CURRENT OUTLAYS OF THE CENTRAL GOVERNMENT WERE \$33.3 MILLION (10.7 PER CENT) HIGHER IN 1977 THAN IN 1976, AND \$21.8 MILLION ABOVE THE LEVEL ORIGINALLY BUDGETED FOR 1977. AS REPORTED BY THE GOP, OPERATING EXPENDITURES OF THE MINISTRIES WERE ABOUT THE SAME AS IN 1976, BOTH INDIVIDUALLY AND OVERALL, EXCEPT FOR A \$5 MILLION INCREASE IN OUTLAYS FOR ECUCATION. HOWEVER, A \$12.6 MILLION INCREASE IN "TRANSFER PAYMENTS" COVERED SOME INCREASED SPENDING BY MINISTRIES, AS WELL AS HIGHER SUBSIDY PAYMENTS. INTEREST COSTS ON DIRECT DEBT OF THE CENTRAL GOVERNMENT (EXCLUDING AUTONOMOUS AGENCIES) AGAIN ROSE SHARPLY, FROM \$52.2 MILLION IN 1976 TO \$63.8 MILLION IN 1977. DEBT AMORTIZATION OF \$36 MILLION IN 1977 IS SHOWN UNDER DEFICIT FINANCING. SERVICING OF CENTRAL GOVERNMENT DEBT THUS AMOUNTED TO \$100 MILLION IN 1977, UNCLASSIFIED

UNCLASSIFIED

PAGE 03 PANAMA 01156 01 OF 02 212056Z

OR 29 PERCENT OF CURRENT REVENUES. INCLUSION OF AUTONOMOUS AGENCY DEBT SERVICE OF AN ESTIMATED \$152 MILLION (\$47 MILLION INTEREST AND \$105 MILLION AMORTIZATION) BROUGHT TOTAL GOP DEBT SERVICE IN 1977 TO AN ESTIMATED \$252 MILLION (\$111 MILLION INTEREST AND \$141 MILLION AMORTIZATION).

4. CAPITAL EXPENDITURES: THE GOP REPORTED CENTRAL GOVERNMENT CAPITAL OUTLAYS OF \$89.3 MILLION IN 1977 (\$125 MILLION BUDGETED), COMPARED TO \$101.9 MILLION IN 1976. HOWEVER, THESE FIGURES INCLUDE A PART OF THE GOP'S SPECIALIZED LENDING ACTIVITIES IN SUCH AREAS AS HOUSING AND AGRICULTURE (\$43.9 MILLION IN 1976, N.A. FOR 1977) WHICH ARE REALLY PRIVATE SECTOR RATHER THAN GOVERNMENT INVESTMENTS SINCE THE LOANS ARE TO BE REPAYED. MOREOVER, REPORTED CAPITAL EXPENDITURES OF THE CENTRAL GOVERNMENT PROVIDE AN INCOMPLETE PICTURE OF PUBLIC SECTOR INVESTMENT IN PANAMA SINCE BY FAR THE BIGGER PART OF SUCH SPENDING IS DONE THROUGH THE GOP'S 39 AUTONOMOUS AGENCIES. THESE, TOO, INCLUDE SOME GOP SPECIALIZED LENDING ACTIVITIES. FOR 1977, THE AUTONOMOUS AGENCIES BUDGETED \$317 MILLION FOR CAPITAL INVESTMENT (INCLUDING \$100 MILLION IN LENDING ACTIVITIES) COMPARED TO ACTUAL OUTLAYS OF \$302 MILLION IN 1976 (INCLUDING

LENDING OF \$17 MILLION). HOWEVER, ACTUAL EXPENDITURES FOR 1977 WERE PROBABLY LESS THAN BUDGETED AS A RESULT OF GOVERNMENT FISCAL AUSTERITY, IN PARTICULAR A MAJOR CUTBACK IN THE GOP'S HOUSING PROGRAM. IN SUM, TOTAL PUBLIC SECTOR INVESTMENT IN 1977 WAS PROBABLY NEAR LAST YEAR'S LEVEL OF \$404 MILLION, WELL BELOW THE \$442 MILLION ORIGINALLY BUDGETED FOR 1977.

5. DEFICIT: BECAUSE 1977 REVENUES EQUALED CURRENT EXPENDITURES, THE CENTRAL GOVERNMENT'S DEFICIT EQUALED THE VALUE OF CAPITAL OUTLAYS. AS IN RECENT YEARS, MOST OF THE DEFICIT WAS FINANCED BY FOREIGN BORROWING (AS WERE THE CAPITAL OUTLAYS OF THE AUTONOMOUS AGENCIES). WE ESTIMATE THAT GROSS BORROWING BY THE CENTRAL GOVERNMENT

UNCLASSIFIED

PAGE 04 PANAMA 01156 01 OF 02 212056Z

ROSE TO \$153 MILLION IN 1977 (\$133 MILLION EXTERNAL) FROM \$146 MILLION IN 1976 (\$100 MILLION EXTERNAL). AMORTIZATION PAYMENTS INCREASED FROM \$28 TO \$36 MILLION RESULTING IN NET CENTRAL GOVERNMENT BORROWING OF \$117 MILLION IN 1977 COMPARED TO \$118 MILLION IN 1976. (BORROWING BY THE AUTONOMOUS AGENCIES--MOSTLY FROM ABROAD--TO FINANCE THEIR INVESTMENT PROGRAMS EXCEEDS CENTRAL GOVERNMENT BORROWING, BUT FOR WHICH DETAILED DATA IS NOT YET AVAILABLE.)

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 PANAMA 01156 02 OF 02 212208Z
ACTION MMO-04

INFO OCT-01 ARA-14 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 USIA-15 TRSE-00 XMB-04
OPIC-06 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 /104 W
-----110417 212218Z /64

R 212010Z FEB 78
FM AMEMBASSY PANAMA
TO SECSTATE WASHDC 5771
INFO AMEMBASSY GUATEMALA
PANCANAL
USSOUTHCOM

UNCLAS SECTION 2 OF 2 PANAMA 1156

GUATEMALA PASS ROCAP

6. THE MUCH-IMPROVED GOP FISCAL PERFORMANCE IN 1977 RESULTED FROM HARSH, POLITICALLY-HAZARDOUS MEASURES TAKEN AT THE START OF THE YEAR: A MAJOR CONSUMER TAX INCREASE AND A CURB ON EXPENDITURE GROWTH. THIS POLICY OF FISCAL AUSTERITY WAS FORCED ON THE GOP BY THE PRECARIOUS FINANCIAL SITUATION IT FACED AT THE CLOSE OF 1976, AT A TIME WHEN AN EXPANSIONARY FISCAL POLICY WOULD HAVE BEEN HIGHLY DESIRABLE FROM THE STANDPOINT OF PANAMA'S LINGERING RECESSION. AS A CONSEQUENCE, BUDGET AUSTERITY HAD A NEGATIVE IMPACT ON THE ECONOMY THROUGHOUT 1977 AND ACCORDINGLY MAY HAVE HELD BACK EVEN LARGER REVENUE INCREASES THAN THOSE RESULTING FROM THE 5 PER CENT SALES TAX.

7. ON THE EXPENDITURE SIDE, THE 1977 INCREASES IN THE CENTRAL GOVERNMENT'S OPERATING OUTLAYS WERE ALMOST COMPLETELY TAKEN UP BY INFLATION, WHICH WE ESTIMATE WAS ABOUT 8 PER CENT LAST YEAR. THE FACT THAT 1977 WAS THE THIRD CONSECUTIVE YEAR WITHOUT REAL GROWTH IN CENTRAL GOVERNMENT OPERATING EXPENDITURES PLUS THE

UNCLASSIFIED

PAGE 02 PANAMA 01156 02 OF 02 212208Z

CONTINUED DECLINE IN PER CAPITA GROSS DOMESTIC PRODUCT, ADDED GREATLY TO THE STEADY BUILDUP SINCE 1975 OF PRESSURES FOR MAJOR INCREASES IN PUBLIC SECTOR WAGE AND JOB LEVELS. THIS PRESSURE SURFACED IN LATE 1977 WHEN THE GOP USED PART OF ITS GREATER-THAN-EXPECTED INCREASE IN REVENUES TO BOOST TRANSFER PAYMENTS BEYOND BUDGETED LEVELS, WITH MUCH OF THE INCREASE CHanneLED BACK THROUGH THE MINISTRIES IN SUPPORT OF THE GOP'S RECENT EMERGENCY EMPLOYMENT PROGRAM.

8. A COMPANION MESSAGE ON THE GOP BUDGET FOR 1978, WHICH HAS BEEN RELEASED ONLY IN PART, WILL BE SUBMITTED BY SUBSEQUENT AIRGRAM.

9. FOLLOWING IS A SUMMARY OF THE FISCAL RESULTS FOR 1977:

GOVERNMENT OF PANAMA CENTRAL GOVERNMENT REVENUES/ EXPENDITURES (\$ MILLION)

	Q1976	1977	PERCENT	
			INCREASE	
A. REVENUES	281.6	343.1	21.8	
1. DIRECT TAXES	108.3	130.1	20.1	
2. INDIRECT TAXES	115.2	150.9	31.0	

(5 PCT SALES TAX	(32.8)		
3. NON-TAX REVENUE	58.1	62.1	6.9
B. EXPENDITURES	411.7	432.4	5.0
1. CURRENT	309.8	343.1	10.7
A. MINISTRIES	208.5	217.6	4.4
B. TRANSFER PAYMENTS		49.1	61.7 25.7
C. INTEREST	52.2	63.8	22.2

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 PANAMA 01156 02 OF 02 212208Z

2. CAPITAL #	101.9	89.3
(INCL. NET LENDING OP'NS)	(58.0)	(21.5) (EST)
C. DEFICIT	-130.1	-89.3
1. GROSS BORROWING##	146	153
2. LESS: REPAYMENTS	-28	-36
3. NET BORROWING	118	117
4. BALANCE###	12	-28
(CAPITAL OUTLAYS - AUTONOMOUS AGENCIES)##		
	(301.7)	(317.4) (BUD)
(INCL. LENDING OP'NS)	(17.3)	(100.0) (BUD)
# INCLUDES CAPITAL TRANSFERS TO AUTONOMOUS AGENCIES		
## MOSTLY FOREIGN FINANCED		
### OTHER NET CAPITAL TRANSFERS		
JORDEN		

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS, GOVERNMENT EXPENDITURES, GOVERNMENT REVENUES
Control Number: n/a
Copy: SINGLE
Draft Date: 21 feb 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978PANAMA01156
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780078-0948
Format: TEL
From: PANAMA
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780232/aaaabbim.tel
Line Count: 254
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 0dfa60d3-c288-dd11-92da-001cc4696bcc
Office: ACTION MMO
Original Classification: UNCLASSIFIED
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: ONLY
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 08 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3536026
Secure: OPEN
Status: NATIVE
Subject: IMPROVED GOP FISCAL PERFORMANCE IN 1977 FEATURE STANTIAL REVENUE INCREASE(22 PER CENT) AND EXPENDITURE CURBS
TAGS: EFIN, ECRP, PN
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/0dfa60d3-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014